



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**LOWER COLORADO RIVER BASIN
DEVELOPMENT FUND,
BUREAU OF RECLAMATION**

**REPORT NO. 96-I-1033
JULY 1996**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20240

AUG - 8 1996

MEMORANDUM

TO: The Secretary
 Wilma A. Lewis
FROM: Wilma A. Lewis
 Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information - "Lower Colorado River
Basin Development Fund, Bureau of Reclamation"
(No. 96-I-1033)

Attached for your information is a copy of the subject final audit report. The objective of the audit was to determine whether the Bureau of Reclamation complied with requirements pertaining to the Lower Colorado River Basin Development Fund's receipts and expenditures for fiscal year 1995.

We concluded that the Bureau of Reclamation had generally complied with the legislative requirements that apply to the receipt and expenditure of Development Fund monies for fiscal year 1995. However, we did note that internal controls over the Development Fund could be strengthened if the Bureau would formulate written procedures to account for Development Fund receipts and expenditures. We also determined that the Bureau had not submitted its required annual reports to the Congress on Development Fund activity for fiscal years 1994 and 1995.

The Bureau concurred with our recommendations by submitting the required project reports for fiscal years 1994 and 1995 to the Congress on May 28, 1996, and by agreeing to develop written procedures and guidelines to account for Development Fund receipts and expenditures by December 31, 1996.

If you have any questions concerning this matter, please contact me or Mr. Robert J. Williams, Acting Assistant Inspector General for Audits, at (202) 208-5745.

Attachment



United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL
Washington, D.C. 20240

JUL 30 1996

AUDIT REPORT

Memorandum

To: Commissioner, Bureau of Reclamation
From: Judy Harrison *Judy Harrison*
Assistant Inspector General for Audits

Subject: Final Audit Report on the Lower Colorado River Basin Development Fund,
Bureau of Reclamation (No. 96-I-1033)

INTRODUCTION

This report presents the results of our review of the Bureau of Reclamation's Lower Colorado River Basin Development Fund, established by the Colorado River Basin Project Act (Public Law 90-537), as amended. The objective of the review was to determine whether the Bureau complied with requirements pertaining to the Development Fund's receipts and expenditures for fiscal year 1995.

BACKGROUND

On September 30, 1968, the Congress enacted the Colorado River Basin Project Act to provide funding for the comprehensive development of the water resources of the upper and lower Colorado River basins. The Act directed the Secretary of the Interior to construct, operate, and maintain the Central Arizona Project for the primary purpose of providing irrigation and municipal and industrial water to Arizona and New Mexico. The Act also authorized the establishment of the "Lower Colorado River Basin Development Fund," a separate revolving fund in the U.S. Treasury, to account for the receipt and expenditure of Project monies. The Act further required the Secretary to prepare annual reports "to the Congress on the status of Project revenues, costs, and repayment. The Congress also enacted additional legislative requirements for the Development Fund, which are included in the Hoover Power Plant Act of 1984 (Public Law 98-381) and the Colorado River Basin Salinity Control Acts (Public Laws 93-320 and 98-569).

Development Fund receipts include related Project construction appropriations from the Congress and sums advanced by non-Federal entities for carrying out the provisions of the Colorado River Basin Project Act; all revenues collected in connection with the operation of authorized Project facilities, such as the Navajo Generating Station; and any “surplus” Federal power revenues from the Boulder Canyon Project pursuant to the Hoover Power Plant Act of 1984.

Development Fund expenditures include payments for Project construction, operation, maintenance, and replacement expenses; repayment to the U.S. Treasury for Federal investment costs, with interest based on the unamortized balance of the electric power supply and municipal and industrial water supply features; repayment of a share of the reimbursable Colorado River Basin Salinity Control Act costs to the U.S. Treasury; and repayment to the Upper Colorado River Basin Fund for power purchases required to meet Hoover Darn contractual obligations during the period that the Glen Canyon Darn reservoir was filled.

From October 1968 through September 1995, Bureau records indicate that collections and appropriations deposited in the Development Fund totaled \$4.4 billion: \$2.9 billion of construction appropriations; \$1.3 billion of power revenues; and \$200 million of water sales, repayment by the Central Arizona Water Conservation District¹, and miscellaneous revenues. During the same period, expenditures from the Development Fund totaled \$4.3 billion: distributions of \$2.8 billion from construction appropriations; outlays of \$1.2 billion for operations, maintenance, and replacement expenses; and disbursements of \$300 million for miscellaneous items, such as the repayment of the Navajo Generating Station investment and the interest on the unamortized electric power and municipal and industrial water investment. For fiscal year 1995, Development Fund collections and outlays were about \$246 million and \$225 million, respectively (see Appendix 1).

SCOPE OF AUDIT

We conducted our review from October 1995 through February 1996 at the Bureau’s Lower Colorado Regional Office in Boulder City, Nevada, and at the Phoenix Area Office in Phoenix, Arizona. To meet our objective, we reviewed documents pertaining to fiscal year 1995 Development Fund receipts and expenditures and interviewed Bureau program officials and officials from the Office of the Solicitor’s Phoenix field office about the legislative requirements and the lawsuits affecting the Development Fund.²

¹The Arizona State Legislature created the Central Arizona Water Conservation District in 1971 as the single entity to contract with the Bureau for the operation and maintenance of the Project and for the repayment of most of the reimbursable Project construction costs.

²In July 1995, the District filed a lawsuit against the Government over various repayment and operational issues associated with the Project. In August 1995, the Government responded by filing a lawsuit against the District. Many of the repayment and operational issues under litigation could impact the financial condition of the Project and future Development Fund receipts and expenditures (the fiscal year 1995 impacts are contained in Appendix 1).

Our audit was made in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary to accomplish our objective. In planning our audit, we reviewed the Department of the Interior's Annual Statement and Report, required by the Federal Managers' Financial Integrity Act, for fiscal year 1994 and determined that the Department did not report any material weaknesses related to the objective and scope of our audit. We also evaluated the Bureau's system of internal controls related directly to the Development Fund and found that the Bureau had not: (1) formulated written procedures to account for Development Fund receipts and expenditures and (2) submitted its required annual reports to the Congress on Development Fund activity. These weaknesses and recommended corrective actions are discussed in the Results of Audit section of this report. The recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

Neither the General Accounting Office nor the Office of Inspector General has audited the Development Fund within the past 5 years. However, the independent accounting firm of Ernst & Young reviewed the Development Fund's costs related to Project construction for the District. In the May 28, 1993, report "Schedule of Construction and Other Costs and Other Financial Information," Ernst & Young addressed Development Fund construction costs for fiscal years 1991 and 1992. The report concluded that the Schedule presented fairly the costs of the Project as of September 30, 1991, and 1992.

RESULTS OF AUDIT

Overall, we found that the Bureau generally complied with the legislative requirements that apply to the receipt and expenditure of Development Fund monies for fiscal year 1995. However, we did note that internal controls over the Development Fund could be strengthened if the Bureau would formulate written procedures to account for Development Fund receipts and expenditures. In addition, we found that the Bureau had not submitted its required annual reports to the Congress on Development Fund activity for fiscal years 1994 and 1995.

Accounting Procedures

The Bureau's Lower Colorado Region had not formulated written procedures to ensure the consistent accounting treatment of Development Fund receipts and expenditures. Generally accepted accounting principles prescribe that a system of administrative and accounting controls be established to ensure consistent accounting treatment of revenues and expenses in differing accounting periods. Although the Department and the Bureau had established general accounting policies and procedures, specific instructions to guide Bureau officials through the various legislative requirements for the Development Fund were not formulated. The Bureau relied on one person to account for Development Fund receipts and expenditures and to consolidate data obtained from various sources without

the benefit of any written procedures. Although not required by legislation, we believe that procedures are needed to describe the proper accounting treatment for each source of the Development Fund's receipts and expenditures. Such procedures should incorporate the legislative requirements and Solicitor's opinions that impact the Development Fund. These procedures would help strengthen internal controls by ensuring the continuity of accounting treatment and help expedite the timely generation of required financial statements and annual reports.

Annual Reports

At the time of our review, the Bureau's Lower Colorado Region had not completed its required Central Arizona Project annual reports for fiscal years 1994 and 1995. The Colorado River Basin Project Act states that "the Secretary shall report to the Congress," on an annual basis, the status of (1) the revenues from and the cost of constructing, operating, and maintaining the Project for the preceding fiscal year; (2) the current Federal investment allocated to power, irrigation, and other purposes; and (3) the current and projected Project repayment. The Region's Finance Team Leader advised us that the submission of the fiscal year 1994 report to the Secretary was delayed because the Bureau and the District were in negotiations to resolve disputed repayment and operational issues,³ which the Region wanted to conclude before submitting the 1994 report to the Secretary. The Team Leader also told us that the fiscal year 1995 report was in progress and would be completed upon receipt of the Bureau's current Project cost allocation information. Since the Bureau had not completed its reports, the Secretary has not been able to submit the information to the Congress. We believe that the timely submittal of the annual reports is necessary to keep the Congress apprised of the financial condition of the Development Fund and the status of the Project's repayment.

Recommendations

We recommend that the Commissioner, Bureau of Reclamation, direct the Lower Colorado Region to:

1. Develop written procedures to account for Development Fund receipts and expenditures.
2. Complete the Project's annual reports for fiscal years 1994 and 1995 and submit the reports to the Secretary.

³The negotiations between the Bureau and the District involved repayment and operational issues, including debt restructuring; the District's repayment obligation; and the extent of the Government's responsibility for Project operation, maintenance, and replacement costs. The negotiations were discontinued in June 1995, after which the District and the Government filed lawsuits against each other.

Bureau of Reclamation Response and Office of Inspector General Reply

The June 7, 1996, response (Appendix 2) from the Commissioner, Bureau of Reclamation, stated concurrence with Recommendation 1 and compliance with Recommendation 2.

Based on the response, we considered Recommendation 2 resolved and implemented and Recommendation 1 resolved but not implemented. Accordingly, Recommendation 1 will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation, and no further response to the Office of Inspector General is required (see Appendix 3).

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

cc: Commissioner, Bureau of Reclamation

**SCHEDULE OF SOURCE AND DISPOSITION OF THE LOWER
COLORADO RIVER BASIN DEVELOPMENT FUND FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 1995**

	<u>Fiscal 1995 Activity</u> (\$000's)	<u>Total</u> (\$000's)
Beginning Cash Balance at October 1, 1994		\$79,837
Source*		
Collections/Revenue:		
Navajo Power	\$82,383	
Hoover Power	11,674	
Water Sales ¹	0	
Operation and Maintenance Advances by the District	1,010	
Stage I Repayment by the District ²	34,332	
Construction Appropriations	116,253	
Miscellaneous	<u>193</u>	
Subtotal	\$245,845	
Disposition*		
Outlays:		
Construction	101,943	
Operations - Navajo Power	67,755	
Operations - Other	4,810	
Interest on Unpaid Investment - Stage I	42,738	
Transfers:		
Repayment of Investment ³	0	
Salinity Control	5,834	
Hoover Deficiency ⁴	<u>1,533</u>	
Subtotal	\$224,613	
Change in Cash Balance		<u>\$21,232</u>
Ending Cash Balance at September 30, 1995		<u>\$101,069</u>

*The accompanying footnotes are on page 2 of this appendix.

¹The Central Arizona Water Conservation District and the Government disagree on whether water sales revenues should be credited to the Development Fund. In an August 1987 operation and maintenance transfer contract for the Central Arizona Project, the Bureau allowed the District to retain all interim water sales revenues to fund the Project's operation and maintenance costs prior to the "notice of completion." Because the Bureau issued its "notice of substantial completion" on September 30, 1993, the Government believes that the District's failure to credit the water sales revenues to the Development Fund is a violation of Project legislation. This issue is the subject of the pending lawsuits.

²The District and the Government disagree on various repayment issues: the actual repayment ceiling provided for in the amended repayment contract, the allocation of certain Project costs to the District's repayment obligation, and the Bureau's cost allocation procedure. In December 1994, the Bureau billed the District \$54.1 million as its annual repayment obligation. In January 1995, the District submitted a payment of \$34.3 million, a difference of \$19.8 million. This issue is the subject of the pending lawsuits.

³Based on the Bureau's cost allocation procedure, the District's repayment obligation due in January 1995 included \$46.8 million of interest. The District's payment of \$34.3 million was credited to the U.S. Treasury as interest on the unpaid Project investment. Since the payment was not sufficient to cover the interest due, none of the Project investment principal was repaid. This issue is the subject of the pending lawsuits.

⁴This transfer reimburses the Upper Colorado River Basin Fund for power purchases required to meet deficiencies in generation at Hoover Dam during the period that the Glen Canyon Dam Reservoir was filled. Annual transfers of \$1,533,000 will be made from the Lower Colorado River Basin Development Fund to the Upper Colorado River Basin Fund until 1999.



United States Department of the Interior

BUREAU OF RECLAMATION
WASHINGTON, D.C. 20240

IN REPLY
REFER TO:
D-5010
ADM-8.00

JUN 07 1996

MEMORANDUM

To: Office of Inspector General
Attention: Assistant Inspector General for Audits

From: Eluid L. Martinez
Commissioner

Subject: Draft Audit Report on Lower Colorado River Basin Development Fund, Bureau of Reclamation, Assignment No. W-IN-BOR-001-96, Dated April 1996

The Bureau of Reclamation offers the following comments in response to the recommendations in the subject report.

Recommendation 1

Develop written procedures to account for Development Fund receipts and expenditures.

Response

Concur. Written procedures and guidelines are being developed to improve the overall financial management program in the Lower Colorado Region. Specific procedures to account for the Lower Colorado River Basin Development Fund receipts and expenditures will be developed and incorporated into these procedures.

The responsible official is the Lower Colorado Regional Finance Manager. The target date for implementation is December 31, 1996.

Recommendation 2

Complete the Project's annual reports for fiscal years 1994 and 1995 and submit the reports to the Secretary.

Response

Complied. The Project reports for fiscal years 1994 and 1995 were transmitted to the Congress on May 28, 1996.

If you have questions or require additional information, please contact Luis Maez at (303)236-3289, extension 245.

cc: Assistant Secretary - Water and Science, Attention: Margaret Carpenter

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Finding/ Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
1	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
2	Implemented.	No further action is required.

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